

DJB pursuant to 1st until 8th Octrooi

When was the first circulation bank established in Dutch Indies? How did it come into being? What and who was responsible for its establishment? You will have all the answers in this article. In addition, there will be the history of De Javasche Bank as the predecessor of Bank Indonesia as the Indonesian Central Bank. How De Javasche Bank first performed its banking practices in Dutch Indies as well as its later development until the second Exclusive Right. All of these stories are found in the following chapter.

Background of Establishment

The financial fiasco in Dutch Indies called for orderliness and regulation of the payment system in territory. In the Dutch Kingdom, this problem coined the idea to set up a circulation bank for Dutch Indies. The decision was made shortly before the departure of the Commissioner General for Dutch Indies, Mr. C.T. Elout to the archipelago, namely during the handover ceremony of Dutch Indies from Britain in 1816. Likewise in Batavia, Dutch Indies, the businessmen strongly called for the establishment of a banking institution to meet their business needs, particularly financing and international trade facilities. As a follow up of the idea coined in 1816, on 29 December 1826, King Willem the first issued Power of Attorney No. 85 to the Commissioner General of Dutch Indies to immediately negotiate with the Dutch Indies Administration concerning the establishment of a bank in Java pursuant to a Exclusive Right, namely the authority and sole right from the Government for a given period.

Such authorization from King Willem was made according to the confidential information from the Minister of Marine Affairs and Colonies who had been assigned to submit a Exclusive Right concept and provisions for a bank to be set up in Java. Through such authorization, King Willem empowered the Minister of Marine Affairs and Colonies to pass the Authorization to the Commissioner General and involved *Nederlandsche Handelmaatschappij* (NHM) in the establishment of De Javasche Bank (DJB).

The First Exclusive Right: 1828-1838

The Decree issued by the Commissioner General No. 28 dated 11 December 1827 stipulated an Special Exclusive Right for DJB as the provision and guideline to run its activities. The first Exclusive Right was effective for 10 years from 1 January 1828 until 31 December 1837 and it was extended until 31 March 1838. As laid down in the First Exclusive Right, DJB's authorized capital was determined at f 4,000,000 divided into 8,000 shares with the nominal value of f 500 each. The amount had to be paid in gold and silver. Its first paid-up capital amounted to f 2,000,000 (50%); and when the paid-up capital reached f 1,000,000 (25%), the bank would be declared being established and could commence its operations. During the first phase of the stock sales, as much as f 1,021,500 of shares were sold and afterwards after the first phase was closed, the bank opened the second and third phases offering stocks worth one million gulden respectively. With this first capital (f 1,021,500) in gold and silver, in compliance to article 32 of the first Exclusive Right, on 11 March 1828, DJB printed its very first banknotes worth f 1,120,000 comprising the denominations of f 1,000, f 500, f 300, f 200, f 100, f 50, and f 25. In case the bank wished to print banknotes with smaller fractions, the Bank's Board of Directors

had to ask for permission from the Governor General who would pass the request to Holland.

Under the first to eight Exclusive Rights, the only legal payment instruments were the bank notes only. However, shortly before the expiry of the first Exclusive Right, DJB was confronted with the difficulty to maintain its bullion and silver reserve ratio against the money in circulation. As a result, DJB was forced to reject to convert bank notes with gold and silver. As replacement, they decided to circulate brass coins worth *f* 1 to *f* 1,000. These coins could be converted to 1 gulden or equivalent to 100 *duit* through the state treasury. As a circulation bank, apart from printing and circulating money, DJB was also in charge of carrying out the following transactions:

1. Credit extension with 0.75% monthly interest, and if the credit is guaranteed with foreign currencies, gold and silver, it bore the 0.50% and 0.65% interest rates.
2. Taking over drafts issued by the State Pawn Office in Java, mortgaging commercial paper, valuables and merchandise as well as money conversion.
3. In raising the public funds, DJB also accepted current account and saving account, provided money transfer service for commercial paper and custodian service for foreign currencies.

In its second year of operation, DJB began to open branch offices beyond Batavia, namely in Semarang and Surabaya. The idea to establish branch offices emerged during the first General Meeting of Shareholders held on 25 March 1828 and inserted in article 9 of the bank's Provisional Bylaw. As a follow up of the idea, the bank appointed a research team, namely the Semarang team and Surabaya team to carry out a research of which the results would be used by the Board of Directors to envisage the opening of those branch offices. The branch office of DJB in Semarang was opened on 1 March 1829 as its first branch in Java. The branch officiating was marked with the first deposit from a customer named J Mac Niell amounting to *f* 53,000. As the first branch manager, DJB appointed P.W.C. Hipp, a local businessman from Semarang, while its Board of Commissioners comprised J. Mac Niell, T. Schuurman and J. Bremer. The Surabaya branch office was opened on 14 September 1829 as the second branch office in Java. Its first branch manager was F.H. Preyer and its Board of Commissioners was made up of A.H. Buchler, J.E. Bancks and J.D.A Loth.

Second Exclusive Right: 1838-1848

In view of the bank business developments and compliance to the provisions laid down in the first Exclusive Right, via Decree of the Governor General of Dutch Indies No. 1 dated 17 July 1837, De Javasche Bank's Exclusive Right was extended for another 10 years from 1 April 1838 until 31 March 1848. This Decree was issued based on the authority granted by the Highest Power in Holland and submitted by the Minister for the Colonies No.51/D dated 28 February 1837. In the second Exclusive Right, the paid-up capital subscribed reached *f* 1,021,500. The offer was extended to reach *f* 2,000,000. The denominations circulated remained the same. As a result of silver coin withdrawal from circulation, in 1843 the Government experienced a shortage of coins as one of the payment instruments in Dutch Indies. In response, the State Minister Governor General of Dutch Indies on 4 February 1846 announced that prior to the official withdrawal of denominations of 120 *duit*, 600 *duit*, 1,200 *duit*, 3,000 *duit*, 12,000 *duit* and 60,000 *duit*, the Government would

issue *Recepis* in the fractions of *f* 1, *f* 5, *f* 10, *f* 25, *f* 100 and *f* 500. *Recepis* served as temporary receipt for the deposit/loan. Further, *Recepis* was exchangeable with stocks or bonds or other commercial paper.

Later on the second Exclusive Right regulated the bookkeepers and cashiers in the bank to substitute the role of notaries upon having sat for an exam. Such regulation was not earlier found in the first Exclusive Right. In the second Exclusive Right, DJB was chaired by C.J. Smulders as President and H. Roos JR as Secretary. During this period no other branch offices were opened as they remained in Semarang and Surabaya, and any expansion could take place in Java only.

3rd Exclusive Right: 1848-1858

Through the letter from the Governor General of Dutch Indies No. 5 dated 3 March 1848, the second Exclusive right was extended for 10 years, namely from 1 April 1848 to 31 March 1858. During the tenure of the third Exclusive right, the legal standing, capital structure and domicile of DJB remained the same with branch offices in Semarang and Surabaya. There were no more branch offices opening. However, DJB added its services, namely payment written instruction to the Branch Offices and accepted the duties from the Government. In terms of money circulation, there was no change. Yet, article 27 stated that banknotes could be converted to *Recepis* as it had been announced in the second Exclusive Right on 4 February 1846. Apart from that, on 1 May 1854, the Government enacted the act on Dutch Indies Currency declaring that the Dutch currency was also valid in Dutch Indies as from 1847. This act was promulgated in the State Gazette No. 75 and announced in *De Javasche Courant* No. 68 dated 27 August 1854.

The third Exclusive Right stipulated that the Governor General determine the maximum amount of money in circulation from time to time. This was announced in *De Javasche Courant* to inform the public about the total amount of money in mandatory circulation each month. As a matter of fact, the third Exclusive Right expired on 31 March 1858, but in accordance with the Letter from the Governor General of Dutch Indies No. 5 dated 28 March 1858, DJB was granted a temporary Exclusive Right that was valid for year from 1 April 1858 until 31 March 1860 with modifications such as:

1. All banknote denominations could be exchanged with valid payment instruments and the term *recepis* was eliminated in the third Exclusive Right.
2. The shareholders' votes which were initially 4 shares 1 vote were changed to 2 shares 1 vote, 5 shares 2 votes, 9 shares 3 votes, 14 shares five votes and 20 shares 6 votes.

4th Exclusive Right: 1860-1870

During this period, the bank's paid-up capital which used to amount to *f*2,000,000 within not later than year following the enactment of the 4th Exclusive Right would have to increase to *f*4,000,000. Part of such additional capital was invested in loan to the Government of the Dutch Kingdom, Dutch Indies Administration and Securities. In terms of money circulation, the following applied:

1. Another bank note denomination went to circulation, namely *f*10.

2. Article 30 prohibited the bank from circulating banknotes unless 2/3 of the value was guaranteed with valid payment instruments.
3. The other change affected the Board of Directors' power to circulate money exceeding the highest ceiling as long it was guaranteed by valid payment instruments.
4. The *Recepis* that had been in circulation since 1846 was withdrawn.
5. In case the Government required fund, pawned loans were available bearing 4% annual interest rate.

The 4th Exclusive Right witnessed a number of replacements of DJB's resident. For instance, E. Francis who had been holding his position from 1851 was replaced in 1863 with CFW Wiggers van Kerchem who took over the presidency for one period (5 years) until 1868. His position was then taken over by JWC Diepenheim who presided the bank for two years only up to 1870. Article 5 pointed out that in addition to the branch offices in Semarang and Surabaya, the bank was allowed to open other offices in the rest of Dutch Indies' territories. During this period, five additional branch offices were opened outside Java, namely in Padang, Makassar, Cirebon, Solo and Pasuruan.

The branch office opened on 29 August 1864 in Padang was the third branch and the first outside Java. The first branch manager was A.W. Verkouteren. As matter of fact, the idea of opening this branch office had emerged during the 1st Exclusive Right, but there was then a regulation prohibiting the bank to open any branch office outside Java. The fourth branch office and the second outside Java was opened in Makassar. The idea of opening this branch had been proposed by the Chamber of Commerce and Handicraft of Makassar. The reason behind it was the fact that Makassar had developed into a trading city and government's fiscal traffic. The branch in Makassar was officiated on 11 December 1864 and temporarily managed by J.C. Spengler who used to work for Haager & Schuurman Firm in Jakarta. The 5th branch office was opened in Cirebon. Its plan had been first discussed during the meeting of the Board of Directors on 22 June 1866. The branch office in Cirebon was opened on 6 August 1866 and J.P. Janssen a notary practicing in Cirebon was appointed Branch Manager.

These five branch offices had all been opened in the coastal areas or port cities. Afterwards, there were ideas to also open branch offices in the interior parts of Java. The idea rose when President of De Javasche Bank, C.F.W Wiggers van Kerchem was visiting Yogyakarta. He reiterated that the opening of another branch office in Solo was a real need and at once he sent a telegram to the Head Office asking the plan to open this branch be included in the meeting agenda of the Board of Directors. The Extraordinary General Meeting of Shareholders and Decree No. 15 dated 23 October 1867 approved of the opening of Branch Office in Solo to coincide with the opening of Branch Office in Pasuruan. The Solo Branch was officiated on 25 November 1867 and the Pasuruan Branch was opened on 27 November 1867.

5th Exclusive Right: 1870-1881

The 5th Exclusive Right was effective for 10 years, namely from 1 April 1870 until 31 March 1880 in compliance to Decree of the Governor General of Dutch Indies No. 34 dated 6 March 1870 without any change of its legal standing, domicile and bank products and services. Through Decree of the Governor General of Dutch Indies dated 25 March 1880, this Exclusive Right was extended for another year until 31 March 1881. Article 1 of the 5th Exclusive Right states that no circulation bank could

be established in Dutch Indies. No banknotes issued by overseas central banks could be circulated unless such was regulated through Governor General's Decree. At this point, the bank's capital was raised to f6,000,000 divided into full shares worth f500 per share and half shares worth f250 per share. Another banknote denomination went into circulation, namely fraction of f5.

This Exclusive Right witnessed a change of management structure:

1. DJB was managed by the Board of Directors comprising one President assisted by two Directors and one of them was the Secretary
2. The President of DJB at the early period was held by Mr. F Alting Mees assisted by DN Versteegh as the Executive Secretary and D Schuurman as the Director. Mr. F Alting occupied his position for 3 years only and was replaced by Mr. N.P. van der Berg.
3. DJB appointed the Board of Commissioners made up of 5 officers which had been elected by the shareholders with the tenure of 5 years.
4. A Government Commissioner was appointed to oversee the bank duties. He was appointed and terminated by the Governor General of Dutch Indies.

Shortly before the 5th Exclusive Right expired, on 1 April 1879, DJB opened its branch office in Yogyakarta pursuant to Decree of the Governor General of Dutch Indies No. 7 dated 20 December 1878. Its first Branch Manager was A.F. van Suchtelen who used to manage the Solo Branch. The branch was opened upon a strong urge from many parties, including Dorrepaal & Co. Firm, Semarang as it owned a branch office in Yogyakarta. Aside from that, Yogyakarta was demonstrating favorable economic development as shown from the increasing money transferred via Solo Branch that reached f3.5 million. In addition, the sugar annual production output reached 2,580 ton then.

6th Exclusive Right: 1881-1891

This Exclusive Right was in compliance to Decree of King Willem the Third No. 19 dated 16 October 1880. DJB was 52 years old then when it amended its conception through Deed of Incorporation before Notary Derk Bodde in Jakarta on 22 March 1881. This Deed of Incorporation contained the entire decree of King Willem. Apart from that, the bank's name was added with *Naamlooze Vennootschap* or N.V. De Javasche Bank. Upon the drawing of such deed, DJB was considered a new firm. As a result, the bank applied the following transitional provisions:

1. All its shareholders were given the opportunity to participate in the new firm (NV. DJB).
2. Otherwise, their shares, reserve fund and most recent dividends would be refunded.
3. All the assets and obligations of DJB were transferred to the new firm (NV. DJB).

During the 6th Exclusive Right, the bank's paid-up capital amounted to f6,000,000. Its business activities remained the same, but there were provisions as follows:

1. Investment through the purchase commercial paper issued by the Dutch Indies Administration could not exceed half of the paid-up capital.

2. Similarly, the purchase of securities could not exceed third of the paid-up capital.

Throughout the sixth Exclusive Right, no other branches were opened, but on 31 March 1890, the Pasuruan Branch was even closed down after it had sustained an average loss of f4,000 a year. NV. DJB could not afford maintaining this branch.

7th Exclusive Right: 1891-1906

The 7th Exclusive Right was five years longer than its previous ones. Its tenure was 15 years pursuant to Decree of Queen Wilhelmina No. 6 dated 6 January 1891. The 7th Exclusive Right was valid from 1 April 1891 to 31 March 1906. The bank's legal standing, working capital, business domiciles remained the same. Article 5 of the Exclusive Right stated that the bank was allowed to open a Representative Office in Amsterdam which was opened on 15 May 1891. In addition, in Batavia, Filial Weltervreden Office was opened on 6 May 1901 but the office was there for one year only when it was closed down on 31 January 1902. Throughout the 7th Exclusive Right, DJB replaced its President twice. President, G.B. Zeverijn who had been in office from 1889 (the tenure of the 6th Exclusive Right) was replaced by D. Groeneveld in 1893 but his position was taken over by J. Reysenbach in 1898. The latest held office up to the expiry of the 7th Exclusive Right.

The 8th Exclusive Right: 1906-1921

The 8th Exclusive Right expired on 31 March 1906 but it was extended pursuant to Decree of Queen Wilhelmina No. 26 dated 2 January 1906 so its tenure became 15 years. Upon its expiry, its period was always extendable for another year, unless the Governor General decided otherwise. In case of revocation or annulment of the Exclusive Right, legally it did not mean that DJB's role as a circulation bank was annulled. Even within five years upon its annulment, DJB would remain in operation. Throughout this tenure, the legal standing, capital, domiciles and products & services remained unchanged, but there was a tradable commercial paper, namely foreign bank draft with a tenor as commonly accepted in international trade. In this last Exclusive Right, DJB issued numerous new regulations in the payment system aimed at improving the payment traffic in Dutch Indies.

As from 1 January 1907, DJB began to introduce current account traffic in their offices. Shortly afterwards, DJB also introduced a bank clearing system and inter-bank calculation system. In February 1909, an agreement on clearing calculation system was first reached in Batavia (now Jakarta). Such clearing agreement was signed by six major banks, namely DJB itself, NHM Factory, Hongkong and Shanghai Banking Corp., Chartered Bank of India, Australia and China, and *De Nederlandsche Indische Escompto Maatschappij*. At first, there was some reservation to such agreement on clearing calculation system and DJB was not considered a neutral institution to act as the clearing leader. As a result, the six participating banks agreed to involve a third party which would be considered being neutral and willing to carry out the clearing procedure. This third party was Reynst & Vinyu firm which agreed its office be used as the clearing office.

After Batavia, clearing system was subsequently carried out in other cities. In Semarang, clearing involving a third party, namely Fa. S.L. van Nierop & Co. began in 1909 under the supervision of A.L. Tupker. In the same year, DJB's Surabaya

Branch Office began to serve as the first branch that carried out clearing calculation in its own office without involving any third party. This step was then followed by the other branch offices such as Medan Branch (1915), Bandung (1921), and Makassar (1922). Based on the clearing data in the period from 1912-1916, apart from DJB Batavia, Surabaya was emerging as a trading and business city faster than Semarang or other major cities. When Mr. G. Vissering (1906-1912) and E.A. Zeilinga (1912-1921) took presidency, DJB opened other 11 branch offices in Java and outside Java. The branches in Java comprised the Branches in Bandung (1909) and Malang (1916). The branches outside Java comprised the Branches in Pontianak (1906), Bengkalis (1907), Medan (1907), Banjarmasin (1907), Tanjung Balai (1908), Tanjung Pura (1908), Palembang (1909), Manado (1910) and Banda Aceh (1918). The eight Exclusive Right expired on 31 March 1921 and was extended for another year, namely up to 31 March 1922.